

GRAYLING HOUSING COMMISSION
GRAYLING, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Graying Housing Commission</i>		County <i>Crawford</i>
Audit Date <i>3/3/04</i>	Opinion Date <i>11/24/04</i>	Date Accountant Report Submitted to State: <i>11/26/04</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <i>Barry E. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. Eighth Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49686</i>
Accountant Signature <i>Barry E. Gaudette, CPA</i>			

GRAYLING HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Grayling Housing Commission
Grayling, Michigan

We have audited the accompanying financial statements of the Grayling Housing Commission, Michigan as of March 31, 2004, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grayling Housing Commission, Michigan, as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004 on our consideration of Grayling Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Grayling Housing Commission
Independent Auditor's Report
Page Two

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bany E. Jandella, CPA, PC

November 24, 2004

FINANCIAL STATEMENTS

GRAYLING HOUSING COMMISSION
COMBINED BALANCE SHEET
March 31, 2004

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ASSETS

Current Assets:

Cash	\$ 84,542
Accounts receivable-tenants	4,899
Investments-unrestricted	48,351
Prepaid expenses	17,015
Inventories	<u>2,475</u>

Total Current Assets	<u>157,282</u>
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Property, Plant, and Equipment:

Land	88,873
Buildings	2,359,405
Equipment	<u>183,968</u>
	2,632,246

Less: accumulated depreciation	<u>(1,350,994)</u>
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Net Property, Plant, and Equipment	<u>1,281,252</u>
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Total Assets	<u>\$ 1,438,534</u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION
COMBINED BALANCE SHEET (CONTINUED)
March 31, 2004
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LIABILITIES and EQUITY

Current Liabilities:

Accounts payable	\$ 29,068
Tenant security deposit liability	17,589
Accrued expenses	6,332
Deferred revenues	1,985
Accrued liabilities-other	<u>106</u>

Total Current Liabilities 55,080

Noncurrent Liabilities:

Accrued compensated absences	<u>56,985</u>
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Total Liabilities 112,065

Equity:

Contributed capital-HUD	784,351
Undesignated retained earnings(deficit)	<u>542,118</u>

Total Equity 1,326,469

Total Liabilities and Equity \$ 1,438,534

See notes to financial statements

GRAYLING HOUSING COMMISSION
**COMBINED STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004
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OPERATING REVENUES:

Dwelling rent	\$ 245,575
Non-dwelling rent	<u>89</u>
 Total operating revenues	 <u>245,664</u>

OPERATING EXPENSES:

Administration	276,000
Utilities	83,223
Ordinary maintenance and operation	138,373
General expenses	38,643
Casualty losses	(2,264)
Housing assistance payments	355,831
Depreciation	<u>82,803</u>
 Total operating expenses	 <u>972,609</u>

Operating income(loss)	<u>(726,945)</u>
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NONOPERATING REVENUES AND (EXPENSES):

Investment interest income	1,024
Other income	16,559
Operating grants	<u>628,257</u>

Total nonoperating revenues(expenses)	<u>645,840</u>
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Net income(loss)	(81,105)
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Prior period adjustments, equity transfers and correction of errors	(36,610)
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Equity, beginning	<u>1,444,184</u>
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Equity, ending	<u><u>\$ 1,326,469</u></u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended March 31, 2004
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Cash flows from operating activities:

Operating(loss)	\$(726,945)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	82,803
Changes in assets and liabilities:	
(increase) decrease in assets:	
Accounts receivable	(4,091)
Prepaid expenses	6,102
Inventories	(2,475)
Due from other funds	34,907
Increase (decrease) in liabilities:	
Accounts payable-operations	3,254
Accrued compensated absences	7,930
Accounts payable-PILOT	1,917
Tenant security deposits	376
Deferred revenues	(192)
Accrued liabilities-other	106
Due to other funds	<u>(34,907)</u>
Net cash (used in) operating activities	<u>(631,215)</u>

**Cash flows from noncapital
financing activities:**

Operating grants	606,925
Other revenue	<u>16,559</u>
Net cash provided by noncapital financing activities	<u>623,484</u>

**Cash flows from capital and related financing
activities:**

Payments for capital acquisitions	<u>(7,230)</u>
Net cash (used in) capital and related financing activities	<u>(7,230)</u>

GRAYLING HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended March 31, 2004
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Cash flows from investing activities:

Certificates of deposits purchased	(171)
Receipts of interest and dividends	<u>1,024</u>

Net cash provided by investing activities	<u>853</u>
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Net increase(decrease) in cash	(14,108)
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Cash, beginning	<u>98,650</u>
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Cash, ending	<u><u>\$ 84,542</u></u>
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 84,542
Restricted cash	<u> </u>

Cash and cash equivalents per balance sheet	<u><u>\$ 84,542</u></u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
March 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Grayling Housing Commission. The Grayling Housing Commission is a component unit of the City of Grayling, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Grayling on June 23, 1959, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Grayling Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3008, the Housing Commission constructed, maintains and operates 88 units of subsidized housing in the City of Grayling, Michigan. Under Contract, the Housing Commission manages a Housing Choice Voucher program of subsidies for 130 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program. The Housing Commission also started a Homeownership Program during the current fiscal year that is classified as the Resident Opportunity and Supportive Services Program.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported equity is segregated into contributed capital and retained earning components. Operating statements present increases (revenues) and decreases (expenses) in equity.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City of Grayling has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Inventory

Inventory is priced using the average cost method.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the balance sheet.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Land improvements	15 years
Buildings	40 years
Equipment - portable	5 - 7 years
Furnishings	7 years
Office equipment	7 years

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity

The Housing Commission classifies its equity as follows:

- a. Contributed capital represents pre-2001 contributions from grants, HUD notes, and other aids for capital acquisitions and improvements.
- b. Unreserved retained earnings indicate that portion of equity which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to contributed capital rather than retained earnings.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave. Vacation days earned may be accumulated to a maximum of twenty-four days. Employees with ten years consecutive service may accumulate thirty-six days maximum.

Any employee who terminated prior to completing twelve months of service shall receive no vacation pay. Any employee, who has served twelve months or more, will upon termination, receive payment for any unused vacation at his or her regular hourly rate at the time employment ceases.

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave (Continued)

- * Sick pay. Unused sick leave may be accumulated to a total of not more than 816 hours. Annual carry over shall not exceed 720 hours. Employees will be compensated at a rate of \$4.00 per hour annually for every hour unused in excess of 720 hours. Upon termination the sick leave accumulated up to 720 hours will not be paid.
- * Personal leave. Each employee shall receive sixteen hours of paid personal time on July 1 of each year. Personal time must be used by the end of the fiscal year or forfeited.

The amount of accumulated benefits at March 31, 2004, was \$63,317, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
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NOTE 2: CASH AND INVESTMENTS (Continued)

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the March 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					<u>Carrying Value</u>
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	
Citizens Bank	\$171,701	\$	\$	\$171,701	\$132,668
Total Deposits	<u>\$171,701</u>	<u>\$</u>	<u>\$</u>	<u>\$171,701</u>	132,668
Change fund					50
Petty cash					<u>175</u>
					<u>\$132,893</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 84,542
Investments					48,351
Restricted cash					
Total					<u>\$132,893</u>

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
March 31, 2004
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NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2004, the receivables were \$4,899 with \$ -0- estimated as uncollectible. Bad debt expense was \$1,351.

Accounts Payable - HUD

Amounts due to HUD represents funding due from the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2004 were as follows:

Housing Choice Voucher Program	<u>\$ 8,831</u>
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Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Housing Choice Voucher Program	\$ -	Low Rent Program	\$ -
	<u>\$ -</u>		<u>\$ -</u>

The capital fund program transferred \$38,208 to the Low Rent Program during the fiscal year ended March 31, 2004.

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
 =====

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2004 was as follows:

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
Low Rent Program				
Land	\$ 88,873	\$	\$	\$ 88,873
Buildings	2,359,405			2,359,405
Furniture, equip. & machinery - dwellings	43,465			43,465
Furniture, equip. & machinery - administration	<u>112,091</u>	<u>4,184</u>		<u>116,275</u>
	2,603,834	<u>\$ 4,184</u>	<u>\$</u>	2,608,018
Less accumulated depreciation	<u>(1,247,009)</u>	<u>\$ (82,803)</u>	<u>\$ 93</u>	<u>(1,329,719)</u>
Total	<u>\$1,356,825</u>			<u>\$1,278,299</u>

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
Housing Choice Voucher Program				
Furniture, equip. and machinery- administration	<u>\$ 21,275</u>	<u>\$ 1,403</u>	<u>\$</u>	<u>\$ 22,678</u>
	21,275	<u>\$ 1,403</u>	<u>\$</u>	22,678
Less accumulated depreciation	<u>(21,275)</u>	<u>\$</u>		<u>(21,275)</u>
Total	<u>\$</u>			<u>\$ 1,403</u>

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
 =====

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>03/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/04</u>
Resident Opportunity and Supportive Services Program (Homeownership)				
Furniture, equip. & machinery - administration	\$	\$ 1,550	\$	\$ 1,550

NOTE 5: CONTRIBUTED CAPITAL

The following is a summary of the activity in the Contributed Capital accounts:

	<u>Net HUD PHA</u> <u>Contributions</u>
Balance, beginning	\$ 867,154
Depreciation add back	(82,803)
Balance, ending	<u>\$ 784,351</u>

NOTE 6: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 7: POST EMPLOYMENT BENEFITS

The Grayling Housing Commission participates in the City of Graylings' pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2003, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits is \$186,787. Valuation assets available to meet this obligation were \$359,597. The Housing Commission has five(5) active members. There is an overfunded balance of \$184,177 as of December 31, 2003. The Housing Commission contributed \$14,069.85, which is 7.45% of payroll. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual plan.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**NOTE 9: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND
CORRECTION OF ERRORS**

Low Rent Program

Housing Choice Voucher Program advances misreported in prior year	<u>\$ (36,610)</u>
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GRAYLING HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 March 31, 2004
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NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains three Enterprise Funds which provide housing assistance and grant programs. Segment information for the year ended March 31, 2004, was as follows:

	<u>Low Rent</u>	<u>Capital</u>	<u>Housing</u>	<u>Homeownership</u>
	<u>Program</u>	<u>Fund</u>	<u>Choice</u>	<u>Program</u>
			<u>Vouchers</u>	
Operating revenue	\$ 245,664	\$	\$	\$
Operating expenses	501,437		411,151	60,021
Operating (loss)	(255,773)		(411,151)	(60,021)
Depreciation	82,803			
Operating grants	94,828	38,208	417,733	77,488
Operating transfers	38,208	(38,208)		
Other income	16,559			
Net income(loss)	(105,354)		6,782	17,467
Plant, property, and equipment:				
Additions	4,184		1,403	1,550
Working capital	46,203		40,082	15,917
Total assets	1,367,391		50,422	20,721
Total equity	1,267,517		41,485	17,467

SUPPLEMENTARY INFORMATION

GRAYLING HOUSING COMMISSION
COMBINING BALANCE SHEET
 March 31, 2004

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C-3008 Low Rent Program	Capital Fund Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 16,352	\$
Accounts receivable-tenant	4,899	
Investments-unrestricted	48,351	
Prepaid expenses	17,015	
Inventories	<u>2,475</u>	<u> </u>

Total current assets	<u>89,092</u>	<u> </u>
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Property, plant, and equipment:

Land	88,873	
Buildings	2,359,405	
Equipment	<u>159,740</u>	<u> </u>
	2,608,018	
Less accumulated depreciation	<u>(1,329,719)</u>	<u> </u>

Net property, plant and equipment	<u>1,278,299</u>	<u> </u>
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Total Assets	<u><u>\$1,367,391</u></u>	<u><u>\$ </u></u>
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Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 49,019	\$ 19,171	\$ 84,542
		4,899
		48,351
		17,015
		<u>2,475</u>
<u>49,019</u>	<u>19,171</u>	<u>157,282</u>
		88,873
		2,359,405
<u>22,678</u>	<u>1,550</u>	<u>183,968</u>
22,678	1,550	2,632,246
(21,275)		(1,350,994)
<u>1,403</u>	<u>1,550</u>	<u>1,281,252</u>
<u>\$ 50,422</u>	<u>\$ 20,721</u>	<u>\$ 1,438,534</u>

GRAYLING HOUSING COMMISSION
COMBINING BALANCE SHEET (CONTINUED)
 March 31, 2004

=====

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and EQUITY		
Current liabilities:		
Accounts payable	\$ 16,983	\$
Tenant security deposit liability	17,589	
Accrued expenses	6,332	
Deferred revenues	1,985	
Accrued liabilities-other	<u> </u>	<u> </u>
Total current liabilities	<u>42,889</u>	<u> </u>
Noncurrent liabilities:		
Accrued compensated absences	<u>56,985</u>	<u> </u>
Total noncurrent liabilities	<u>56,985</u>	<u> </u>
Total liabilities	<u>99,874</u>	<u> </u>
Equity:		
Contributed capital - HUD	784,351	
Undesignated retained earnings	<u>483,166</u>	<u> </u>
Total equity	<u>1,267,517</u>	<u> </u>
Total Liabilities and Equity	<u>\$1,367,391</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 8,831	\$ 3,254	\$ 29,068
		17,589
		6,332
		1,985
<u>106</u>		<u>106</u>
<u>8,937</u>	<u>3,254</u>	<u>55,080</u>
		<u>56,985</u>
		<u>56,985</u>
<u>8,937</u>	<u>3,254</u>	<u>112,065</u>
		784,351
<u>41,485</u>	<u>17,467</u>	<u>542,118</u>
<u>41,485</u>	<u>17,467</u>	<u>1,326,469</u>
<u>\$ 50,422</u>	<u>\$ 20,721</u>	<u>\$ 1,438,534</u>

GRAYLING HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN EQUITY**
 Year Ended March 31, 2004

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 245,575	\$
Nondwelling rent	<u>89</u>	<u> </u>
Total operating revenues	<u>245,664</u>	<u> </u>
OPERATING EXPENSES:		
Administration	160,659	
Utilities	83,223	
Ordinary maintenance and operation	138,373	
General expenses	38,643	
Casualty losses	(2,264)	
Housing assistance payments		
Depreciation	<u>82,803</u>	<u> </u>
Total operating expenses	<u>501,437</u>	<u> </u>
Operating income(loss)	<u>(255,773)</u>	<u> </u>
NONOPERATING REVENUES AND (EXPENSES):		
Operating transfers in(out)	38,208	(38,208)
Investment interest income	824	
Other income	16,559	
Operating grants	<u>94,828</u>	<u>38,208</u>
Total nonoperating revenues (expenses)	<u>150,419</u>	<u> </u>
Net income(loss)	(105,354)	
Prior period adjustments, equity transfers and correction of errors	(36,610)	
Equity, beginning	<u>1,409,481</u>	<u> </u>
Equity, ending	<u>\$1,267,517</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$ 245,575
		89
		<u>245,664</u>
55,320	60,021	276,000
		83,223
		138,373
		38,643
		(2,264)
355,831		355,831
		<u>82,803</u>
<u>411,151</u>	<u>60,021</u>	<u>972,609</u>
(411,151)	(60,021)	(726,945)
200		1,024
		16,559
<u>417,733</u>	<u>77,488</u>	<u>628,257</u>
<u>417,933</u>	<u>77,488</u>	<u>645,840</u>
6,782	17,467	(81,105)
		(36,610)
<u>34,703</u>		<u>1,444,184</u>
<u>\$ 41,485</u>	<u>\$ 17,467</u>	<u>\$ 1,326,469</u>

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended March 31, 2004

	C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Operating(loss)	\$(255,773)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	82,803	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(4,091)	
Prepaid expenses	6,102	
Inventories	(2,475)	
Due from other funds	34,907	
Increase (decrease) in liabilities:		
Accounts payable-operations		
Accrued compensated absences	7,930	
Accounts payable-PILOT	1,917	
Tenant security deposits	376	
Deferred revenues	(192)	
Accrued liabilities-other		
Due to other funds		
Net cash (used in) operating activities	<u>(128,496)</u>	
Cash flows from noncapital financing activities:		
Operating transfers in(out)	38,208	(38,208)
Operating grants	58,218	38,208
Other revenue	<u>16,559</u>	
Net cash provided by noncapital financing activities	<u>112,985</u>	
Cash flows from capital and related financing activities:		
Payments for capital acquisitions	<u>(4,277)</u>	
Net cash (used in) capital related financing activities	<u>(4,277)</u>	

GRAYLING HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended March 31, 2004
 =====

	C-3008 Low Rent Program 14.850	Capital Fund Program 14.872
Cash flows from investing activities:		
Certificates of deposits purchased	(171)	
Receipts of interest and dividends	824	
Net cash provided by investing activities	653	
Net increase(decrease) in cash	(19,135)	
Cash, beginning	35,487	
Cash, ending	<u>\$ 16,352</u>	<u>\$</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 16,352	\$
Restricted cash		
Cash and cash equivalents per balance sheet	<u>\$ 16,352</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
		(171)
<u>200</u>		<u>1,024</u>
<u>200</u>		<u>853</u>
(14,144)	19,171	(14,108)
<u>63,163</u>		<u>98,650</u>
<u>\$ 49,019</u>	<u>\$ 19,171</u>	<u>\$ 84,542</u>

<u>\$ 49,019</u>	<u>\$ 19,171</u>	<u>\$ 84,542</u>
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<u>\$ 49,019</u>	<u>\$ 19,171</u>	<u>\$ 84,542</u>
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GRAYLING HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended March 31, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 94,828
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	38,208
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Resident Opportunity and Supportive Services (Homeownership Program)	14.870	77,488
	<u>Low Income Public Housing</u> <u>Major - Direct Program</u>		
2004	Housing Choice Vouchers	14.871	<u>417,733</u>
	Total		<u>\$ 628,257</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

GRAYLING HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended March 31, 2004

=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 16,352	\$
100	Total cash	<u>16,352</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	<u>4,899</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>4,899</u>	
	Current Investments:		
131	Investments-unrestricted	<u>48,351</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	17,015	
143	Inventories	<u>2,475</u>	
	Total other current assets	<u>19,490</u>	
150	Total current assets	<u>89,092</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	88,873	
162	Buildings	2,359,405	
163	Furn, equip & mach-dwellings	43,465	
164	Furn, equip & mach-admin.	116,275	
166	Accumulated depreciation	<u>(1,329,719)</u>	
160	Total fixed assets, net of accumulated depreciation	<u>1,278,299</u>	
180	Total noncurrent assets	<u>1,278,299</u>	
190	Total Assets	<u>\$ 1,367,391</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$ 49,019	\$ 19,171	\$ 84,542
<u>49,019</u>	<u>19,171</u>	<u>84,542</u>
		<u>4,899</u>
		<u>4,899</u>
		<u>48,351</u>
		17,015
		<u>2,475</u>
		<u>19,490</u>
<u>49,019</u>	<u>19,171</u>	<u>157,282</u>
		88,873
		2,359,405
		43,465
22,678	1,550	140,503
(21,275)		(1,350,994)
<u>1,403</u>	<u>1,550</u>	<u>1,281,252</u>
<u>1,403</u>	<u>1,550</u>	<u>1,281,252</u>
<u>\$ 50,422</u>	<u>\$ 20,721</u>	<u>\$ 1,438,534</u>

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$	\$
322	Accrued compensated absences	6,332	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	16,983	
341	Tenant security deposits	17,589	
342	Deferred revenues	1,985	
346	Accrued liabilities-other	<u> </u>	<u> </u>
310	Total current liabilities	<u>42,889</u>	<u> </u>
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>56,985</u>	<u> </u>
350	Total noncurrent liabilities	<u>56,985</u>	<u> </u>
300	Total liabilities	<u>99,874</u>	<u> </u>
	Equity:		
	Contributed Capital:		
504	Net HUD PHA contributions	<u>784,351</u>	<u> </u>
508	Total contributed capital	784,351	
512	Undesignated retained earnings	<u>483,166</u>	<u> </u>
513	Total Equity/Net Assets	<u>1,267,517</u>	<u> </u>
600	Total Liabilities and Equity	<u>\$ 1,367,391</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$ 3,254	\$ 3,254
		6,332
8,831		8,831
		16,983
		17,589
		1,985
<u>106</u>	<u> </u>	<u>106</u>
<u>8,937</u>	<u>3,254</u>	<u>55,080</u>
<u> </u>	<u> </u>	<u>56,985</u>
<u> </u>	<u> </u>	<u>56,985</u>
<u>8,937</u>	<u>3,254</u>	<u>112,065</u>
<u> </u>	<u> </u>	<u>784,351</u>
		784,351
<u>41,485</u>	<u>17,467</u>	<u>542,118</u>
<u>41,485</u>	<u>17,467</u>	<u>1,326,469</u>
<u>\$ 50,422</u>	<u>\$ 20,721</u>	<u>\$ 1,438,534</u>

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 245,575	\$
704	Tenant revenue-other	<u>89</u>	<u> </u>
705	Total tenant revenue	245,664	
706	HUD PHA grants	94,828	38,208
711	Investment income-unrestricted	824	
715	Other revenue	<u>16,559</u>	<u> </u>
700	Total revenue	<u>357,875</u>	<u>38,208</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	77,907	
912	Auditing fees	1,950	
913	Outside management fees		
914	Compensated absences	7,930	
915	Employee benefit contributions-adm.	36,634	
916	Other operating-administrative	36,238	
	Utilities:		
931	Water	18,486	
932	Electricity	27,170	
933	Gas	37,567	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	44,669	
942	Ordinary maint & oper-mat'ls & other	63,342	
943	Ordinary maint & oper-contract costs	8,952	
945	Employee benefit contributions- ordinary maintenance	21,410	
	General expenses:		
961	Insurance premiums	20,309	
963	Payments in lieu of taxes	16,983	
964	Bad debt-tenant rents	<u>1,351</u>	<u> </u>
969	Total operating expenses	<u>420,898</u>	<u> </u>
970	Excess operating revenue over operating expenses	<u>(63,023)</u>	<u>38,208</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
\$	\$	\$ 245,575
		89
		<u>245,664</u>
417,733	77,488	628,257
200		1,024
		<u>16,559</u>
<u>417,933</u>	<u>77,488</u>	<u>891,504</u>
43,665	25,927	147,499
		1,950
	14,680	14,680
4,824		12,754
6,831	8,751	52,216
	10,663	46,901
		18,486
		27,170
		37,567
		44,669
		63,342
		8,952
		21,410
		20,309
		16,983
		<u>1,351</u>
<u>55,320</u>	<u>60,021</u>	<u>536,239</u>
<u>362,613</u>	<u>17,467</u>	<u>355,265</u>

GRAYLING HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended March 31, 2004
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses	(2,264)	
973	Housing assistance payments		
974	Depreciation expense	<u>82,803</u>	
	Total other expenses	<u>80,539</u>	
900	Total expenses	<u>501,437</u>	
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(143,562)	38,208
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>38,208</u>	<u>(38,208)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(105,354)	
1103	Beginning Equity	1,409,481	
1104	Prior period adjustments, equity transfers and correction of errors	<u>(36,610)</u>	
	Ending Equity	<u>\$ 1,267,517</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Resident Opportunity and Supportive Services <u>14.870</u>	<u>Totals</u>
		(2,264)
355,831		355,831
		<u>82,803</u>
<u>355,831</u>		<u>436,370</u>
<u>411,151</u>	<u>60,021</u>	<u>972,609</u>
6,782	17,467	(81,105)
6,782	17,467	(81,105)
34,703		1,444,184
		<u>(36,610)</u>
<u>\$ 41,485</u>	<u>\$ 17,467</u>	<u>\$ 1,326,469</u>

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Grayling Housing Commission
Grayling, Michigan

We have audited the financial statements of the Grayling Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Grayling Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 24, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Samy E. Tardiff, CPA

November 24, 2004

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Grayling Housing Commission
Grayling, Michigan

Compliance

We have audited the compliance of the Grayling Housing Commission, Michigan (Housing Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance and Internal Control
Over Compliance in Accordance With
OMB Circular A-133
Grayling Housing Commission
Page Two

Compliance (continued)

In our opinion, Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2004.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated November 24, 2004.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ramy E. Tardiff, CPA, PC

November 24, 2004

GRAYLING HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
March 31, 2004
=====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$ 94,828	No	O	N/A	N/A
14.872	Capital Fund Program	38,208	No	O	N/A	N/A
14.870	Resident Opportunity and Supportive Services	77,488	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>417,733</u>	Yes	O	N/A	N/A
	Total	<u>\$ 628,257</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

GRAYLING HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
March 31, 2004

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

GRAYLING HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
March 31, 2004

=====

NONE

GRAYLING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 March 31, 2004
 =====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
Low Rent Program			
	(1)		
1128	A/R-Voucher	\$ 34,902.00	
6010	Prior period adj.		\$ 34,902.00

Housing Choice Voucher Program

	(2)		
2802	Undesignated F/B	\$ 34,902.00	
1128	A/R-Low Rent		\$ 34,902.00

GRAYLING HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2004

GRAYLING HOUSING COMMISSION
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MARCH 31, 2004

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Grayling Housing Commission

We have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Barry E. Faulkner, CPA, PC

November 24, 2004

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Grayling Housing Commission

We have audited the financial statements of the Grayling Housing Commission ("Housing Commission") as of and for the year ended June 30, 2004, and have issued our report, thereon, dated November 24, 2004. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

November 24, 2004

GRAYLING HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
June 30, 2004
=====

Certificate of Deposits

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

We recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets. It should be noted that the Bank the Housing Commission is using as a matter of standard procedures requires two signatures.

Tenant Deposits

The deposit ticket is not reviewed by someone other than the employee that makes the deposit.

We recommend that the Housing Commission have an employee that does not make the deposit review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

Housing Choice Voucher Deposits

The Housing Commission has the electronic deposits for the Housing Choice Voucher Program from HUD deposited directly into the Low Rent Program checking account.

We recommend that the deposits from HUD be made electronically directly to the Housing Choice Voucher Program checking account.

Computer Back-Up

The Housing Commission has not been storing the computer back-ups in a fire proof safe.

We recommend that the backup disk from the previous night be stored off-site, preferably in a safe deposit box at a bank or stored on site in a fire proof safe.

GRAYLING HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
June 30, 2004
=====

Cash Collections

Tenants currently can pay their rents by cash, check or money order.

We recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

Signature Stamp

The Housing Commission requires two signatures on checks and signature stamps are used for the signatures. The signature stamps is kept secure by the Executive Director. The Executive Director also stamps the signatures for both signatures.

We recommend that if signature stamps are to be used that the Executive Director and the Commissioner keep his/her possession of their own stamp and also stamp the check themselves.

Mileage Reports

The Housing Commission reimburses employees for mileage for approved travel, but there a mileage report is not always available to support the disbursement.

We recommend the Housing Commission prepare a standard travel expense report that should be completed by the employee and approved by the Executive Director before payment is made. This report should be attached to a copy of the check before filing.

Sweep Account

The Housing Commission is currently using a sweep account for the Low Rent Program and Housing Choice Voucher Program.

We recommend that the Housing Commission discontinue using the sweep accounts. Since the Housing Commission is below the FDIC insurance limit of \$200,000 (\$100,000 for interest bearing accounts and \$100,000 for noninterest bearing accounts) there is no need for the insured aspect of sweep accounts. Also, the sweep accounts are confusing and there are hidden fees.

GRAYLING HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 June 30, 2004
 =====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
			(1)
1128	Accounts receivable-		
	Voucher Program	\$ 34,902.00	
6010	Prior period		
	adjustments		\$ 34,902.00

To adjust the due from other programs to zero.

HOUSING CHOICE VOUCHER PROGRAM

			(1)
2802	Undesignated fund balance	\$ 34,902.00	
1128	Accounts receivable-		
	Low Rent Program		\$ 34,902.00

To correct beginning fund balance to March 31, 2003
 audit report balance.